

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
CLERK**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY CLERK

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Russell County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$77,683 from the prior year, resulting in excess fees of \$165,263 as of December 31, 2007. Revenues increased by \$401,743 from the prior year and expenditures increased by \$324,060.

Report Comment:

The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENT AND RECOMMENDATION	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mickey Garner, Russell County Judge/Executive
The Honorable Lisha Popplewell, Russell County Clerk
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Russell County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2008 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Mickey Garner, Russell County Judge/Executive
The Honorable Lisha Popplewell, Russell County Clerk
Members of the Russell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Russell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 10, 2008

RUSSELL COUNTY
LISHA POPPLEWELL, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Grants		\$	42,166
State Fees For Services			6,386
Fiscal Court			4,273
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	696,504	
Usage Tax		1,205,055	
Tangible Personal Property Tax		1,411,044	
Other-			
Marriage Licenses		6,141	
Occupational Licenses		50	
Deed Transfer Tax		71,876	
Delinquent Tax		316,173	3,706,843
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		35,620	
Real Estate Mortgages		53,718	
Chattel Mortgages and Financing Statements		52,663	
Powers of Attorney		2,898	
All Other Recordings		33,492	
Charges for Other Services-			
Title Applications, Affidavits, Notary Fees		7,408	
Copywork		2,461	188,260
Other:			
Commission		21,484	
Miscellaneous		1,951	23,435
Interest Earned			1,666
Total Revenues			3,973,029

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
 LISHA POPPLEWELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	476,503	
Usage Tax		1,168,798	
Tangible Personal Property Tax		494,513	
Licenses, Taxes, and Fees-			
Delinquent Tax		38,999	
Legal Process Tax		24,839	
Housing Trust Fund		31,296	
Miscellaneous		28	
			\$ 2,234,976

Payments to Fiscal Court:

Tangible Personal Property Tax	90,354	
Delinquent Tax	22,352	
Deed Transfer Tax	68,283	180,989

Payments to Other Districts:

Tangible Personal Property Tax	791,416	
Delinquent Tax	176,021	967,437

Payments to Sheriff 2,356

Payments to County Attorney 47,671

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 149,284

Employee Benefits-

Employer's Paid Health Insurance 27,956

Contracted Services-

Bookkeeping 2,400

Remodeling 310

Advertising 769

Printing and Binding 4,100

Materials and Supplies-

Office Supplies 22,399

Other Charges-

Conventions and Travel 2,449

Dues 500

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
 LISHA POPPLEWELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges- (Continued)

Postage \$ 5,064

Refunds 923

Miscellaneous 1,295

Space Rental 1,200

Capital Outlay-

Office Equipment 71,883 \$ 290,532

Debt Service:

Lease Purchases 5,700

Total Expenditures \$ 3,729,661

Net Revenues 243,368

Less: Statutory Maximum 71,118

Excess Fees Due County for 2007 172,250

Less: Expense Allowance 3,600

Training Incentive Benefit 3,387 6,987

Excess Fees Due County for 2007 165,263

Payments to Fiscal Court -

August 17, 2007 50,000

February 14, 2008 100,000

February 29, 2008 15,112

March 6, 2008 151 165,263

Balance Due Fiscal Court at Completion of Audit \$ 0

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$42,166. Funds totaling \$42,166 were expended during the year.

Note 5. Lease

The office of the County Clerk was committed to a lease agreement with Better Quality for a Kyocera copier. The agreement requires a monthly payment of \$475 for a term of 60 months, to be completed on July 20, 2010. The remaining balance of the lease agreement was \$14,250 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

The Honorable Mickey Garner, Russell County Judge/Executive
The Honorable Lisha Popplewell, Russell County Clerk
Members of the Russell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Russell County Clerk for the year ended December 31, 2007, and have issued our report thereon dated March 10, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Russell County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Russell County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Russell County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Internal Control Over Financial Reporting (Continued)

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Russell County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Russell County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 10, 2008

COMMENT AND RECOMMENDATION

RUSSELL COUNTY
LISHA POPPLEWELL, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL – MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

During our review of the County Clerk's internal control system, we noted a lack of segregation of duties over receipts and disbursements. The County Clerk and all deputies collect money received each day. The County Clerk reviews all reports and deposits but does not document review. The bookkeeper, who does not have access to the receipts, receives the daily, weekly, and monthly reports, along with the monthly bank statement, to post receipts and disbursements to the ledgers. The County Clerk reviews receipts and disbursements ledgers and reconciliations but there was no documentation of review.

A compensating control is a control that limits the severity of a control deficiency and prevents it from rising to the level of a significant deficiency or, in some cases, a material weakness. The reviews stated above are considered alternative or compensating internal controls and evidence of existence should be noted.

County Clerk's Response: No Response.

